

**REVIEW OF THE REGULATION OF  
CREDIT AND STORE CARDS -  
A CONSULTATION**

Initial Equality Impact  
Assessment

OCTOBER 2009

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Credit and Store Cards  
A Consultation**

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## **Introduction**

- 1 This Equality Impact Assessment accompanies the consultation document and the Economic Impact Assessment. These three documents together form the "Review of the Regulation of Credit and Store Cards – A Consultation".<sup>1</sup>
  
- 2 Consumers value the flexibility that credit and store cards offer and their use has risen dramatically in the past two decades. However, a significant minority of consumers carry high levels of debt on their credit and store cards with no prospect of paying it off within a reasonable amount of time, if at all. Store cards account for a much smaller proportion of unsecured borrowing than credit cards, but are of particular concern because of the high interest rates they charge. Many consumers are facing financial pressures as a result of the downturn and are now having to deal with unsustainable debts built up on their credit and store cards during the years of easy credit.
  
- 3 In light of this, and following the commitment that we set out in the Consumer White Paper: "*A Better Deal for Consumers; Delivering Real Help Now and Change for the Future*",<sup>2</sup> we have been looking at how the regulation of credit and store cards could change to provide a better deal for consumers. The consultation document identifies four specific areas of credit and store cards where we believe a review of existing market practices is necessary. Firstly, the requirement that repayments to a credit or store card are allocated to debts attracting the highest interest rates first; secondly, the level of minimum payments; thirdly, the issue of unsolicited credit limits; and finally, the ability of lenders to raise interest rates on existing debts. The consultation document also identifies scope

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<sup>1</sup> [www.bis.gov.uk/creditconsultation](http://www.bis.gov.uk/creditconsultation)

<sup>2</sup> <http://www.berr.gov.uk/whatwedo/consumers/consumer-white-paper/index.html>

to improve the simplicity and transparency of credit and store cards more generally.

- 4 In considering these five areas, the Government's overall objective is to secure a better deal for consumers, giving them improved control of their credit and store card borrowing, whilst also ensuring that any intervention is proportionate, transparent and targeted. We are conscious of the need to consider how reform which may favour one group of consumers will impact on other types of consumers. In particular, we are mindful of the potential impacts on more-vulnerable consumers if access to credit were to be restricted.

## **Consultation**

- 5 The Department for Business, Innovation & Skills (BIS) is subject to the public sector duties for disability, race and gender equality under section 49A of the Disability Discrimination Act 1995, section 71 of the Race Relations Act 1976 and section 76A of the Sex Discrimination Act 1975 respectively. In addition we recognise the benefits of ensuring that all Government policies are formed so as to avoid, as far as possible, an adverse impact on any particular group. In anticipation of the Equality Bill, which proposes to extend the duty to promote equality of opportunity to sexual orientation, religion or belief, age, gender reassignment and maternity and pregnancy, we aim to show, where possible, the same commitment to the new strands as for the existing ones.
- 6 This Equality Impact Assessment takes an initial summary view of the equality impact of the policy options in each of the five areas covered by the consultation document. Equality Impact Assessments are an important mechanism for ensuring that we gather data to enable us to identify the likely positive and negative impacts that policy proposals may

have on certain groups of consumers and to estimate whether such impacts disproportionately affect such groups.

- 7 We have spoken to a number of organisations about equality issues in the context of this Review and we will continue to do so during the period of consultation. We are conscious, however, that we need more evidence and information before coming to a final view on the preferred policy options. This is, therefore, not a full Equality Impact Assessment and we have included a series of questions where we would find it useful to have your views. These questions are spread throughout this Impact Assessment. A complete set of all the questions covered by the Review can also be found at Annex A of the consultation document.
- 8 We will also undertake further research during the period of the consultation and, along with the responses to the consultation and the impact assessments, they will inform our final decision on policy options and, where necessary, whether mitigating actions are needed to address any negative impacts on vulnerable groups.
- 9 Along with the consultation document and the accompanying Economic Impact Assessment, this Equality Impact Assessment will be revised and finalised after the consultation closes on 19 January 2010 in light of responses received. A refined Equality Impact Assessment will be published alongside the Government's response and the revised Economic Impact Assessment in April 2010.
- 10 This consultation on the Review of the Regulation of Credit and Store Cards opened on 27 October 2009. Responses, including to the questions set out in this Equality Impact Assessment, are sought by 19 January 2010.

- 11 Responses should be sent to: Christina Anderson, Bay 436, BIS, 1 Victoria Street, London, SW1H 0ET, Tel: 0207 215 1923, Email: [cscr@bis.gsi.gov.uk](mailto:cscr@bis.gsi.gov.uk)
- 12 When responding please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please make clear who the organisation represents, and where applicable, how the views of the members were assembled.
- 13 This Equality Impact Assessment is available electronically at [www.bis.gov.uk/creditconsultation](http://www.bis.gov.uk/creditconsultation) along with the consultation and Economic Impact Assessment. Paper copies can be ordered (maximum 20) from Christina Anderson. Where possible, we will make other versions of this document available in Braille, other languages, or audio-cassette on request.

### **Confidentiality & Data Protection**

- 14 Information provided in response to this consultation, including personal information, may be subject to publication or released to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information that you provide, including personal data, to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.
- 15 In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a

request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

## **Context**

16 UK consumers currently owe around £1.4 trillion to banks and other financial institutions. The vast majority of this borrowing is for mortgages on houses. However, £230 billion is unsecured borrowing, which includes personal loans, overdrafts, credit cards, store cards and some other forms of specialist lending.

17 The UK credit card market is highly developed. After the US, the UK has the highest number of credit cards per head of population, with 63 million credit cards in circulation.<sup>3</sup> The store cards market is much smaller, with approximately £1.9 billion of outstanding balances as of December 2008, and it has been steadily declining since 2006 as retailers have migrated customers onto credit card products.<sup>4</sup>

18 We know that credit card holding is lower among low socio-economic groups (32% of adults in socio-economic group E had a credit card in 2008, compared to 82% of adults in groups A and B<sup>5</sup>) and is also lower among low-income groups (38% of those with an annual income below £13,500 have a credit card, compared to 50% for those with an annual income above £25,000<sup>6</sup>), although there is no evidence to suggest that

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<sup>3</sup> British Banking Association (BBA)

<sup>4</sup> Finance and Leasing Association (FLA)

<sup>5</sup> National Readership Survey Social Grade Definitions. A = upper middle class, B = middle class, C1=lower middle class, C2 = skilled working class, D = working class, E = those at lowest level of subsistence.

<sup>6</sup> UK Cards Association publication 'UK Plastic Cards 2009'.

this is because these consumers cannot access the market for credit and store cards.

19 Credit and store cards are important financial products that allow consumers to borrow reasonably large sums of money on a flexible and unsecured basis. The convenience, flexibility and security they offer are valued by large numbers of consumers who use them to make a wide range of purchases and to cover periods of particularly high expenditure or temporary shortfalls in income. Credit and store cards are also likely to be of particular value to consumers with certain disabilities or long-term health conditions who are able to take advantage of the additional protection which applies to credit card transactions to make purchases online with confidence.<sup>7</sup>

20 Most consumers use their credit and store cards responsibly. However, a significant and growing minority are experiencing problems making repayments. Debt is now the number one advice issue in Citizens Advice Bureaux (CAB), accounting for one in three of all enquiries. A survey from the CAB in July 2008 found that more than half of their clients (58%) had no spare money to pay their debts and that those who did have spare money to do so would take, on average, 93 years to repay their debts in full.<sup>8</sup>

21 Whilst lower income households have fewer credit cards, they do have high levels of debt on these cards. Among clients of the Consumer Credit Counselling Service (CCCS), households with an income of less than £10,000 a year had an average credit card debt of nearly £8,000 and an average store card debt of almost £1,400.<sup>9</sup> Survey data also shows that low income consumers are more likely than the average consumer to use

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<sup>7</sup> [http://www.opsi.gov.uk/acts/acts2006/ukpga\\_20060014\\_en\\_1](http://www.opsi.gov.uk/acts/acts2006/ukpga_20060014_en_1)

<sup>8</sup> [www.citizensadvice.org.uk/a\\_life\\_in\\_debt\\_final.pdf](http://www.citizensadvice.org.uk/a_life_in_debt_final.pdf)

<sup>9</sup> <http://www.cccs.co.uk/research/2009/StatsYearbook2008.pdf>

their credit and store cards to make ends meet or to consolidate their debts; both of which are unsustainable uses of credit and store cards in the long term. Furthermore, of those consumers who sought debt advice from the CCCS in 2008, nine out of ten had an annual income of less than £30,000. Office for National Statistics (ONS) data from 2006 also shows that nearly a quarter of householders where the eldest member is under 24 are in arrears on at least one credit commitment or bill.<sup>10</sup> This is more than three times the rate for the general population.

22 Data from a 2006 ONS study further shows that certain groups of consumers are more at risk of struggling with debt than others. In particular this is true of: younger people; tenants, particularly those in social tenancy; low income households; and single parents.<sup>11</sup> A 2008 CAB survey further backs up these ONS statistics.<sup>12</sup> This shows that the effects of debt are felt most strongly amongst some of the most vulnerable members of society. More than 20% of CAB debt clients were single parents, 12% came from ethnic minority backgrounds (compared to 7.9% of the UK population), 27% reported that they had a person with a disability or long-term illness living in their households (compared to 18% of the UK population) and more than two thirds were renting their homes (compared with less than a third of the UK population). This 2008 CAB survey also showed that low income appears to be the most common cause of indebtedness identified by CAB clients, while a significant number of people surveyed attributed their debt to the fact that they have taken on too many debts or have poor financial skills. Illness and disability was the third major reason for debt problems given by CAB clients.

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<sup>10</sup> ONS: The Demographics of Over-Indebtedness

<sup>11</sup> ONS: The Demographics of Over-Indebtedness

<sup>12</sup> [www.citizensadvice.org.uk/a\\_life\\_in\\_debt\\_final.pdf](http://www.citizensadvice.org.uk/a_life_in_debt_final.pdf). It is worth noting that these results may be biased in favour of more vulnerable consumers who are most likely to use CAB services.

23 There is also evidence linking problem debt to those people who experience mental health disorders. Recent research shows that debt is a much stronger risk factor for mental health difficulties than low income,<sup>13</sup> and a recent survey by Mind showed that over 90% of respondents said their debt or financial difficulties had made their mental health problem worse.<sup>14</sup> Data from the ONS shows that people with experience of mental health conditions often live on lower than average income: over 75% rely on welfare benefits.<sup>15</sup>

24 In addition to those consumers who carry high levels of unsustainable debt on their credit cards, there are many who find themselves with little or no prospect of paying these debts off in a reasonable period and at a reasonable cost. Data from the UK Cards Association shows that whilst 80% of those in socio-economic group AB repaid their credit card balance every month or most months, this fell to 56% for those in groups D and E. In terms of age, those cardholders aged 25-34 were least likely to pay off their balance in full every or most months, with only 50% doing so last year. A recent report by Mind, which surveyed people who had either experienced mental distress or had used a mental health service, showed that six out of ten of those surveyed owed money on their credit or store cards, and nearly half owed more than £2,500.<sup>16</sup> It is likely that some of these consumers may not have the financial means to carry credit card debt, and could therefore be worsening their financial situation by using their credit and store cards.

25 In addition, the increasing complexity of credit and store cards means that many consumers are unaware of the true cost of using their card or understand how they can make the best use of it. Many consumers may not be choosing the card which is most suitable for their financial needs

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<sup>13</sup> Mental Capital and Wellbeing – Government Office for Science (2008)

<sup>14</sup> [http://www.mind.org.uk/assets/0000/0102/In\\_the\\_red.pdf](http://www.mind.org.uk/assets/0000/0102/In_the_red.pdf)

<sup>15</sup> ONS, 2002

and in some cases lenders are benefiting from consumers incurring unexpected costs as a result of the lack of transparency about how their card works.

26 A survey by the Office of Fair Trading (OFT) in 2004 found that understanding of credit cards among cardholders was relatively low.<sup>17</sup> This was particularly an issue for those consumers in lower socio-economic groups. They were more likely to say that they had a “limited understanding” of credit cards whilst those in higher socio-economic groups were most likely to say that they had a “very good understanding of credit cards”. The complexity of credit cards is an issue which goes beyond income. The same survey also showed that only 1 in 5 older people (over 55) found credit card information easy to understand. This was backed up by a recent report for the Equality Commission for Northern Ireland, which found that the issue of credit and the consequent debt is a growing problem for older people, many of whom struggle with the unfamiliarity of credit cards.<sup>18</sup> The difficulties older people have in understanding information about credit and store cards is key, given that projections show that by 2071, the number of adults over 65 could double to nearly 21.3m.<sup>19</sup>

27 The difficulties associated with credit and store cards are compounded by low levels of financial capability in some cases, which can make it even harder for certain consumers to choose products that best suit their needs. In 2006, the Financial Services Authority (FSA) identified low levels of financial capability amongst a significant part of the UK population, particularly young people.<sup>20</sup> This is also a concern for those

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<sup>16</sup> [http://www.mind.org.uk/assets/0000/0102/In\\_the\\_red.pdf](http://www.mind.org.uk/assets/0000/0102/In_the_red.pdf)

<sup>17</sup> [http://www.offt.gov.uk/shared\\_offt/reports/financial\\_products/oft978.pdf](http://www.offt.gov.uk/shared_offt/reports/financial_products/oft978.pdf)

<sup>18</sup> [http://www.equalityni.org/archive/pdf/OLDERPEOPLEFinancialservices\(F\).pdf](http://www.equalityni.org/archive/pdf/OLDERPEOPLEFinancialservices(F).pdf)

<sup>19</sup> Mental Capability and Wellbeing, Government Office for Science (2008)

<sup>20</sup> [http://www.fsa.gov.uk/pubs/other/fincap\\_baseline.pdf](http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf)

consumers where complexity of information will be particularly problematic, including for those with underlying disabilities, learning difficulties and long-term health conditions, or for whom English is not their first language.

28 Increasing levels of consumer indebtedness and concerns about the complexity of credit and store cards affects all consumers. The evidence above shows that it is of particular concern for many vulnerable consumers including the young, older people, those on low incomes, in rented accommodation, single parents, and those with disabilities, learning difficulties and long term health conditions.

- 1. Do you have any further evidence on how the use of credit and/or store cards varies amongst different groups of consumers (e.g. older people, younger people, ethnic minorities, people with disabilities or long-term health conditions, single parents, households on low incomes, etc.)?**
  
- 2. Do you have any evidence of any barriers to take-up and use of credit and/or store cards amongst different groups of consumers?**

### **Allocation of payments**

29 General industry practice is that, when a consumer makes a payment against their credit or store card debt, it is allocated to the cheapest debt first. However, many consumers do not understand that this is common practice and may therefore not realise that balances accruing interest at a high rate will be paid off last. These consumers may end up paying a lot more interest over a longer period as a result. A 2008 study from the United States shows that this lack of awareness on allocation of

payments is particularly marked for those consumers with lower levels of personal financial knowledge and for those on lower incomes.<sup>21</sup>

Furthermore, a recent survey from moneysupermarket.com showed that understanding of the allocation of payments was particularly low for younger people. Less than a quarter of consumers under 20 thought that the payment was allocated to the cheapest debt first compared to 39% of consumers over the age of 70 and an average of 31% for all consumers.

30 The allocation of payments from cheapest to most expensive debt first is a particular problem for consumers who regularly withdraw cash on their card; typically charged at 25% APR (annual percentage rate of change) or more. This group, while not necessarily a large proportion of credit card users (latest figures indicate that cash accounts for around 5% of annual credit card transactions by value<sup>22</sup>), is likely to include many more vulnerable consumers, who may have limited choices of other borrowing vehicles and who are borrowing on their card to fund essential cash expenditure. This system of allocation of payments may mean that lenders are benefiting from the lack of understanding and limited choices of these more vulnerable consumers.

31 The consultation document sets out how we propose to change this state of affairs. It examines a number of policy options, including whether we should reverse the allocation of payments to ensure that expensive debts are paid off more quickly; as a very small number of lenders already do. An alternative, more targeted, measure would be to enable consumers always to pay off any expensive cash borrowing first. This would help ensure that those vulnerable consumers who use their cards to withdraw cash are not doubly penalised by high interest charges on cash withdrawals and longer repayment times.

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<sup>21</sup> 'What's draining your wallet? The real cost of credit card advances', Frank (2008)

<sup>22</sup> Source: UK Cards Association

32 *Our initial view of the equality impact of the policy options to reverse the allocation of payments and/or to ensure that cash withdrawals are paid off first is that these are likely to benefit all consumers to a greater extent than the other policy options in this area. However, we will need to consider carefully the wider implications of these two options on certain groups of consumers if the effect is to make cash withdrawal less easily accessible.*

33 A full reversal of the allocation of payments so that these apply from the most expensive to the cheapest debt first puts the allocation of payments entirely in the consumer's favour. This is also true (to a lesser extent) of the policy option which ensures that cash withdrawals are paid off first. This latter option is particularly attractive in that it targets specifically those consumers who are most likely to make these cash withdrawals. Both these options will reduce the amount of time it takes for all consumers to pay off their credit and store card debt and the levels of interest they have to pay during that time.

34 However, neither of these policy options addresses the lack of consumer understanding of the allocation of payment, which is particularly an issue for younger people and for those on low incomes. The consultation document explores the merit of a policy option to provide greater information transparency. It could be argued, however, that the underlying complexity of the issue may mean that greater information transparency by itself might not actually benefit consumers, particularly those with low financial capability. Options which put the consumers' interest first may be the best way of helping these more vulnerable consumers.

35 Lenders have told us that if it becomes more expensive for them to provide cash withdrawal services, they may need to consider making it

more expensive for consumers to use these facilities. We will need to consider carefully, therefore, whether an allocation of payment which is weighted in favour of cash withdrawals may paradoxically make it harder for consumers to make cash withdrawals. It might be argued, however, that whilst some more-vulnerable consumers might be making cash withdrawals out of necessity, many may be doing so without understanding the long-term consequences. This is likely to be particularly true of more vulnerable consumers with low financial capability. A restriction in the availability of cash withdrawals might therefore not be a bad thing for these consumers, although we would need to look carefully at the effect on the most vulnerable consumers who rely on this facility for everyday expenses and might be drawn to alternative sub-optimal forms of borrowing.

36 The consultation document also proposes that repayments could be allocated proportionately to debts incurring different interest rates. Whilst this policy option does put allocation of payments more in the consumer's favour, it does so to a lesser extent than the other options explored here. For those consumers who are struggling to repay their outstanding debts, this option will also have less of an impact on the outstanding amounts owed and this is likely to affect particularly those who are struggling with greater levels of debt, such as the young, tenants, those on low income and single parents. In addition, this option is potentially confusing for consumers, particularly those with low financial capability who might not be aware of the current make up of their debt, let alone how a proportionate approach would help repay their debt.

**3. Do you have any evidence on how the use of the cash withdrawal facility of credit cards varies amongst different groups of consumers?**

**4. To what extent does it matter if cash withdrawal from a credit card becomes more difficult? Is this more of an issue for some groups of consumers?**

**5. Are there any other equality issues we need to consider in this area?**

### **Minimum payments**

37 The minimum payment is the minimum amount that a cardholder must pay each month on their outstanding credit or store card balance. Overall, evidence indicates that 60% of credit and store card holders pay off their balance in full every month, with a further 9% of credit card holders doing so most months. However, the proportion paying off their balance in full every month falls from 80% in socio-economic group AB to 56% in groups D and E. A recent survey from moneysupermarket.com also showed that there is also a significant variation by age. Only 26% of cardholders in their 20s do not have an outstanding balance on their credit cards compared to 62% of the over 70s.<sup>23</sup> Data also suggests that there has been an increase in the proportion of accounts on which the minimum payment has regularly been made in the last couple of years. Whilst this may be attributable to many factors, notably the deterioration in the financial position of many households, it represents a potentially worrying trend. These consumers are using what should be a short-term product for potentially long-term borrowing needs. This will leave them paying off debt very slowly and paying significant levels of interest over a long period of time.

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<sup>23</sup> [www.moneysupermarket.com](http://www.moneysupermarket.com)

38 A mandatory higher minimum payment could reduce consumers' exposure to high cost lending which can last for decades. However, there is a risk that it could also expose many consumers to greater risk of default during difficult times and could limit consumers' flexibility to adjust their repayments to help manage short-term pressures. The consultation document therefore also seeks views on alternative approaches such as the introduction of a recommended minimum payment, which is higher than the contractual minimum. This amount would be set to pay off the card over a much shorter period of time (say three years) and could be the default level of payment for those who choose to pay the minimum by Direct Debit.

39 *Our initial view of the equality impact of the policy options to raise the minimum payment and/or to set a recommended minimum payment is that both are likely to benefit all consumers in the long term. However, if either are taken forward, there will need to be careful consideration of the implementation of both to allow flexibility for certain groups of consumers and to avoid unintended consequences, particularly for more vulnerable consumers.*

40 The proposal to increase the minimum payment paid by consumers would benefit all consumers in the long term by allowing them to repay their debt faster and at a lower overall cost over the lifetime of the loan. However, unless there are effective transitional provisions in place, in the short term it is likely to have a detrimental impact on those consumers who regularly make the minimum payment because of financial necessity. These are most likely to be those consumers who are struggling with debt: households on low incomes; younger people; single parents; and those in rented accommodation. Many of these vulnerable consumers will be struggling to manage on a daily basis and could be pushed over the edge by higher minimum payment levels if the introduction of such

measures is not carefully managed. This could lead them to incur fees and draw them to other less suitable borrowing products, which would further worsen their financial situation. It could also lead them to other problems associated with over-indebtedness such as adverse health impacts. This is likely to be of particular concern for those consumers who are already susceptible to health problems. We would need to be careful, therefore, in how we implemented this policy option to ensure that it does not make a difficult financial situation even worse for the most vulnerable.

41 The recommended minimum payment policy option also provides obvious benefits to consumers, allowing them to make a higher payment than the contractual minimum payment if they want to, thereby reducing the time spent to repay the loan and the interest paid on the balance. Depending on how this option is implemented, it should provide more flexibility for the most vulnerable consumers, who may not be able to afford a higher recommended minimum payment, by allowing them to pay the contractual minimum payment if they want to. We would therefore need to ensure that those who cannot afford to pay more than the contractual minimum are not forced to do so. So, for example, if the recommended minimum payment were to become the default payment option for direct debit mandates, there would need to be provisions in place that allow consumers to opt out to the contractual minimum payment where cash flow prevents them from paying the recommended level. Likewise, to be effective, this option would need to guard against the risk that consumers may start to opt out habitually and pay only the contractual minimum, a situation which might be most likely to affect vulnerable groups.

42 All the policy options in the area of minimum payments would need to be accompanied by clear and accessible information for consumers. Indeed, the importance of greater information transparency is such that it is proposed as a separate policy option in this area. This information would

need to be specifically targeted at those consumers who have low financial capability and who may be currently making the minimum payment because they do not understand the consequences of doing so, rather than because they cannot afford to. Consumers who are likely to fall in this category include the young, older people, those for whom English is not a first language and some consumers with mental disabilities and learning difficulties.<sup>24</sup> The information provision for these consumers would need to be targeted as far as is possible in ways which they find easiest to access. This may mean finding more innovative ways of reaching these consumers and, where appropriate, looking beyond online information.

- 6. Would certain groups of consumers benefit more from a recommended minimum payment than others?**
- 7. Do you have any evidence as to how an increase in the minimum payment could impact different groups of consumers?**
- 8. Are there any other equality issues we need to consider in this area?**

### **Unsolicited credit limit increases**

43 It is common practice for credit and store card lenders to increase consumers' credit limits without their active consent. Recent data from uSwitch found that 19% of credit card holders surveyed had had their limit increased on an unsolicited basis in the previous year.<sup>25</sup> The lack of consumer information and control over the timing and scale of limit

<sup>24</sup> [http://www.fsa.gov.uk/pubs/other/fincap\\_baseline.pdf](http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf)

<sup>25</sup> <https://www.uswitch.com/press-room/?downloadfile=CREDIT-CARD-PROVIDERS-THROW-8.8-BILLION%5B1%5D-OF-UNREQUESTED-CREDIT-AT-CONSUMERS>

increases, alongside low financial capability (particularly for more vulnerable consumers) and in some cases the difficulty of rejecting an increase, undermines consumers' control over their borrowing.

44 In considering the options for reform in the consultation document, we particularly want to take into account the interests of lower income consumers and those who are new to credit, who often rely on being given low initial limits which are then increased as borrowers become better known to lenders ("low and grow"). The consultation calls for further evidence on the impact of options for intervention including proposing limits to the size and/or frequency of limit increases, banning this practice altogether or requiring consumers to opt in to credit limit increases, either in general at the outset of the agreement or to every specific increase.

45 *Our initial view of the equality impact of the policy options proposed in this area is that they are likely to benefit the majority of consumers in the long term, and this is particularly true of the proposal to ban unsolicited limit increases or to require consumers to opt into a limit increase. However, there will need to be careful consideration of their impact on certain groups of consumers, particularly those who are new to credit or have low credit ratings.*

46 From an equality perspective, the main issue that we need to consider for all the options in this area is whether they will be detrimental to the interests of some or all vulnerable consumer groups. The lenders' "low and grow" strategy for high risk groups of consumers allows some consumers who might not otherwise have been able to obtain credit cards to do so. It might be argued, therefore, that this enables these consumers to access these forms of credit rather than less suitable and potentially more harmful forms of borrowing. It is likely that many of the higher risk

consumers who are the recipients of the low initial limits and grow strategy are more vulnerable consumers who, for a number of reasons, may not have any credit record or a good credit record. Typically, these could be consumers who are on lower incomes, perhaps on benefits, out of work for illness or other causes, or recent migrants with no credit history in the UK.

47 Lenders argue that a ban on unsolicited credit limit increases might undermine lending to higher-risk “low and grow” consumers, making it less likely that they would offer credit limit increases and perhaps causing some to leave the market, reducing the choice and availability of credit for some of the more vulnerable consumers. We would need to explore these potential impacts carefully to consider whether this might be an unintended consequence.

48 Qualitative and anecdotal evidence from the CAB survey of 2008 showed that some offers of increased credit from lenders appeared not to take into account the ability of these consumers to repay their loan. This may have encouraged some of these consumers further into debt. Indeed, there is a strong argument that a ban on unsolicited limit increases might address the concerns of consumers who feel that a fixed limit on their credit or store card would help protect them against reckless spending. Action which encouraged consumers to consider whether they could afford further credit might help many to avoid entering into unsustainable debt. This is likely to be particularly true for people suffering from certain forms of mental illness, such as bipolar disorder. Studies have linked such mental health disorders with exuberant spending sprees and compulsive spending behaviour<sup>26</sup>.

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<sup>26</sup> See “In the Red: Debt and Mental Health” Mind 2008  
[http://www.mind.org.uk/assets/0000/0102/In\\_the\\_red.pdf](http://www.mind.org.uk/assets/0000/0102/In_the_red.pdf)

49 A requirement for consumers to opt in to a credit limit increase should enable them to consider whether they can afford further credit by putting the onus on the consumer to accept the credit increase. In theory, therefore, this should mean that fewer consumers would take on credit limit increases that they do not think they can afford. We would need to consider, however, whether in practice this would happen and whether we might find consumers opting in without understanding the consequences or doing so (or indeed not opting in and being constrained by low credit limits when this is not necessary). We would therefore need to ensure that the information provided alongside the opt-in was accessible to all consumers. This is particularly likely to be an issue for those consumers with low financial capability, e.g. for those with certain disabilities or learning disorders, or for whom English is not a first language.

50 A further policy option proposed in the consultation document is to limit the size and/or frequency of credit limit increases. This option does not address the concerns of those consumers who may not be able to manage their debt effectively and who would welcome having some element of control over whether or not to accept a credit limit increase. This is particularly likely to be an issue for some groups of consumers, such as those with mental illness, such as bipolar disorder. It may also impact on the ability of some more vulnerable consumers to request limit increases during times of particular financial stress.

**9. Do you have any evidence as to whether certain groups of consumers might be disadvantaged by a ban of unsolicited credit limit increases?**

**10. Are there any specific equality issues we need to bear in mind when considering an opt-in model for credit limit increases?**

**11. Are there any other equality issues we need to consider in this area?**

**Re-pricing of existing debt**

- 51 The consultation document sets out our concerns about the continuing practice amongst credit and store card lenders to increase interest rates (“re-pricing”) without properly explaining why they are doing so. Consumer groups and others have expressed concerns that some lenders claim to be changing a consumer’s interest rate because they pose a higher risk, but often there is no obvious change in the consumer’s circumstances and the reason for the increase is not properly explained. This higher rate of interest could then be more likely to worsen the financial situation of a particular borrower and possibly (in extreme cases) increase the likelihood of default.
- 52 In the consultation document we make clear that our aim is to ensure that consumers with limited choices are not subjected to unfair interest rate changes, that consumers are given clear information about how and when their rates might change, and that this is a genuine two-way street; rates should go down as well as up. The consultation document therefore sets out a range of options in this area, including banning all interest rate changes on existing debts or placing restrictions on the circumstances in which lenders can carry out risk-based re-pricing.
- 53 *Our initial view of the equality impact of the policy options on the re-pricing of existing debt is that it is unclear to what extent these options would benefit all consumers. More work needs to be done over the next few months to consider this more fully.*

54 Anecdotal evidence shows that many consumers do not understand the often technically complex re-pricing mechanisms credit and store card providers apply to existing debts. Indeed, a recent survey by [www.confused.com](http://www.confused.com) showed that people in the UK found credit card interest rates the fifth most confusing thing in a list of 50.<sup>27</sup> There is often little or no explanation as to why there has been a sudden change in their rate of interest and consumers are often left bewildered and confused. If this is true of the average consumer, it will be particularly true of more vulnerable consumers, many of whom have low financial capability. The problem is not only one of understanding, which may be particularly distressing for those who experience it and who may struggle more with unexpected shocks (such as older people and those with disabilities or learning difficulties). The problem is also whether these interest rate increases are fair and whether they may push more vulnerable consumers further into financially precarious situations.

55 A ban on the re-pricing of existing debt would provide consumers with certainty when they borrowed money on a credit card that their interest rate on that debt would not change. This would not prevent lenders charging different rates for new debt. One of the main advantages of this option for more vulnerable consumers is that it would provide them with certainty on exactly how much they need to repay on their borrowing. This is likely to be particularly valuable to those consumers who cannot easily absorb increases in repayments; the data from the CCCS shows that these are likely to be those on low incomes, single parents, the young and older people.<sup>28</sup> However, even assuming this option is accompanied by effective information transparency, it is likely to be confusing for consumers. Over time, consumers carrying balances for more than 1 year

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<sup>27</sup> <http://www.confused.com/featured-articles/money/credit-cards/top-50-most-confusing-things-in-life-741298255>

<sup>28</sup> <http://www.cccs.co.uk/research/2009/StatsYearbook2008.pdf>

could become subject to several different interest rates. This will particularly be an issue for those consumers who already start at low levels of financial capability. It is also possible that lenders might increase the starting interest rates and this would obviously be of greatest disadvantage to those consumers who currently face the highest cost of credit.

56 The proposal to place restrictions on the circumstances in which lenders can carry out risk-based re-pricing would provide consumers with a greater degree of certainty about the factors that determine changes in their interest rate on the basis of individual risk. This should help them to understand how they might be able to influence interest rate increases and, at least, to anticipate some of these increases. However, constraints on a lender's ability to re-price the debts of existing customers is likely to increase the risk to the lender of providing credit. This may disproportionately affect more vulnerable consumers, some of whom may already be higher risk for lenders. This is likely to be particularly true of those consumers who are not working for whatever reason, including because of disabilities or long-term health conditions, or other reasons.

57 The proposal to define the factors that it would be fair for lenders to take into account when changing an individual's price on grounds of risk would help provide more clarity to consumers on why they have been subject to a re-price. However, it assumes a certain level of knowledge and capability on the behalf of consumers. As we have already explored, many of the more vulnerable consumers have low levels of financial capability. Even if the factors were clearly set out, it is unclear to what extent this would encourage consumers to act on that information. This option places the onus on the consumer to query action taken by lenders if they felt these factors had not been taken into account, or had been unfairly interpreted. Taking this kind of action is likely to be particularly difficult for some more

vulnerable consumers, such as the elderly or those with disabilities or learning difficulties.

- 12. Do you have any evidence as to whether certain groups of consumers are more vulnerable to interest rate re-pricing?**
- 13. What are the relative merits and disadvantages of a ban on re-pricing for different groups of consumers?**
- 14. Are there any other equality issues we need to consider in this area?**

### **Simplicity and transparency**

58 The complexity of credit and store cards can lead consumers to make poor choices and to incur greater debts and charges; it can also have a detrimental impact on levels of switching in the market. The need for greater transparency runs through each of the four specific areas explored above. We have already set out how greater transparency measures need to be accessible to all and need to consider the specific needs of consumer groups.

59 In addition, the consultation document proposes an annual electronic statement (an “e-statement”) which would set out the total cost of running the credit card for the previous year along with information on specific fees and charges incurred. This could then be used by the consumer both to enable them to change their behaviour in light of experience, but also as a basis for identifying cheaper alternatives in the market. We acknowledge that there may be concerns about the accessibility of e-statements to all groups of consumers. Some groups of consumers, particularly perhaps older people and those with physical

disabilities, may find it difficult to engage with information on the computer even where presented in easy-access formats. Others, particularly those on low incomes, may not be able to access easily internet facilities and it might not be appropriate for them to use free public internet services, such as those in libraries, given the sensitive financial information that will be contained in these statements. It would be important therefore to ensure that the statement is also available in other forms. On the other hand, an e-statement is likely to be particularly attractive to the young, most of whom are very confident with the technology and whom we know are more vulnerable to high debt and to a lack of financial understanding of products.

**15. Are there any specific groups of consumers for which an e-statement would not be useful?**

**16. Are there any other simplicity and transparency measures that you think we should consider that would be of particular value for certain groups of consumers?**

## **Conclusion**

60 The review of the credit and store cards market has, as its fundamental objective, the need to secure a better deal for consumers. It is important, however, that we acknowledge that there are different types of consumers and that what might be good for many consumers might disadvantage others. It is for this reason that we are keen to ensure that the interests of specific groups of consumers are carefully evaluated before any decisions on policy are taken. Ultimately, any firm proposal

made by the Government in spring 2010 will consider the best interests of all consumers.